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UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board to the General Assembly at its forty-seventh session. 1/ The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/47/8). The Committee received additional information from the secretariat of the Fund, the Chairman of the Board, and, with regard to the Fund's investments, from representatives of the Secretary-General.

2. Paragraphs 18 to 39 of the report of the United Nations Joint Staff Pension Board deal with actuarial matters, including the methodology and assumptions for the actuarial valuation of the Fund scheduled for 31 December 1993. In this connection, the Advisory Committee notes that the recommendations of the Committee of Actuaries were made on the basis of experience data available in June 1992; however, those preliminary recommendations will be reviewed next year. In the event that changes, particularly in the demographic assumptions, are considered necessary, they would be recommended to the Standing Committee next year.

3. Investment issues, including the management of the Fund's assets, are discussed in paragraphs 40 to 52 of the Board's report; the annual report of the Secretary-General on investments of the Fund is contained in document A/C.5/47/8. Matters relating to investments of the Fund are also discussed in the report of the Board of Auditors, which is contained in annex III to the Board's report.

4. As at 31 March 1992, the market value of the Fund's assets amounted to $10,111 million; the corresponding figure as at 31 March 1991 was $9,338 million. As stated in paragraph 42 of the Board's report, the total

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investment return for the year was 7.6 per cent, which, after adjusting for inflation, represents a "real" rate of return of 4.3 per cent.

5. As indicated in paragraph 49 of the report, the Board expressed its concern "that outstanding tax claims were having an adverse impact on the investment returns of the Fund". The Board has also requested that detailed information be provided to the General Assembly regarding the results of negotiations with certain countries on the question of tax exemptions for the Fund's investments and the actions taken or contemplated when a recognition of tax-exempt status was not granted.

6. The question of long-outstanding tax refunds is addressed in paragraphs 33 to 37 of the report of the Board of Auditors as contained in annex III to the report of the United Nations Joint Staff Pension Board. As indicated in paragraph 37 thereof, the Board of Auditors urges the Administration to "take more effective measures in effecting appropriate disposition of the outstanding taxes, especially those that have remained outstanding for years". In this connection, as indicated in paragraph 57 of the report of the Pension Board, the Representative of the Secretary-General for investments of the Fund stated that he would continue the extensive efforts to redress the problem.

7. In response to inquiry regarding the outstanding taxes, the Advisory Committee was informed that by the end of September 1992, $4.6 million of the total outstanding $12.4 million had been collected. Of the remaining balance of $7.8 million, $4.0 million relate to Spain, and $1.1 million to Italy. The Committee was also informed that tax exemption on investments of the Fund had recently been granted by India, Kenya, the Philippines and Tunisia, while applications for tax exemption were being considered by Spain, Italy, Argentina, Brazil, Chile, Mexico, the Republic of Korea and Zimbabwe. Thailand has denied such exemption. The Committee was also informed that the local currency shown in respect of the outstanding tax refunds due from India in schedule 4 of annex II of the report of the United Nations Joint Staff Pension Board should be changed from rupees to pounds sterling.

8. In addition to the question of outstanding tax refunds, the report of the Board of Auditors addresses a number of other matters including the current system for issuing and verifying certificates of entitlements. As stated in paragraph 44 of the report of the Board of Auditors, "the Board recommended and the Administration agreed that there is a need to reassess the existing system of verifying continuous entitlement of benefits through the issuance and accomplishment of the Certificates of Entitlement. This review should consider the practicability of the system and the availability of present technology as well as ensure that there is adequate and regular verification of entitlements of the beneficiaries of the Fund". This point is elaborated on in paragraph 56 of the report of the Pension Board, wherein the Board notes the Secretary's intention to re-examine the process of certification, with a view to incorporating random sampling techniques "in order to achieve an effective but manageable system of verification of continued eligibility for pension payments". The Advisory Committee agrees to this approach. In this

connection, it recommends that, prior to the submission of the report to the Board at its next session, the Secretary carry out, on a test basis, a number of actual random verifications, and that on the basis of such experience, the Secretary of the Board propose changes to the above-mentioned process.

9. Paragraphs 59 to 81 of the report of the United Nations Joint Staff Pension Board deal with the comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories. In this connection, the Advisory Committee recalls that the General Assembly, in its resolution 46/192, inter alia, concurred "with the conclusions of the International Civil Service Commission and the United Nations Joint Staff Pension Board that further studies are required of possible alternative methodologies in order to determine the most equitable solution for all parties concerned, including in particular studies of the feasibility of determining pensionable remuneration and/or pensions by reference to the local practices of employers used in General Service salary surveys, of the use of the income replacement approach followed in determining the pensionable remuneration of staff in the Professional and higher categories, and of the use of local taxes to derive the pensionable remuneration from the net pensionable salaries".

10. As indicated in paragraph 60 of the report of the Board, two basic methodological approaches were considered by the Board. However, as stated in paragraph 70, the Board concluded that it would be preferable to pursue the approach which relates General Service pensionable remuneration and pensions to salaries while in service.

11. As stated in paragraph 72 of the report of the Board, views differed in the Board on the desirability and implications of various aspects of this approach. The Chairman of the Board, in an effort to bridge differences among the three constituent groups, made a specific proposal as outlined in paragraphs 77 and 78 of the report; however, no consensus was achieved. The position of each group is contained in annex VIII to the report. The views of the Board were transmitted to the July/August session of the International Civil Service Commission (ICSC), the conclusions and recommendations of which are contained in paragraphs 70 to 100 of the report of the Commission to the General Assembly. 2/ In this connection, the Advisory Committee urges the Assembly, when considering those recommendations, to bear in mind the Committee's previous position that recommendations should aim at eliminating current anomalies in the system without creating new ones. 3/

12. As discussed in paragraphs 86 and 87 of the report of the Board, by its resolution 46/192, the General Assembly approved the modification of the pension adjustment system recommended by the Board with respect to the determination of the initial local-currency pensions of participants in the Professional and higher categories, separating on or after 1 April 1992, who provide proof of residence in a high-cost country. In the same resolution, the Assembly, inter alia, endorsed the Advisory Committee's view that the Board should, on the basis of experience with actual costs, determine whether any fine-tuning of the modification was warranted to limit the costs and that

the guidelines set forth in Assembly resolution 31/196 of 22 December 1976 should continue to be taken into account. The Assembly also requested the Board at its next regular session to continue to consider economy measures, including in particular a change of the "120 per cent cap" provision under the two-track pension adjustment system.

13. The Advisory Committee notes the Board's position that because the modification entered into effect on 1 April 1992, it was too early to undertake a meaningful assessment of its actual costs. The Board's views with regard to the other studies referred to in paragraph 86 of its report, including the "120 per cent cap" provision, are contained in paragraphs 89 to 105 of the report of the Board.

14. While agreeing in principle that the "120 per cent cap" could be changed with effect from either 1 January 1995 or 1 April 1995, the Board has, as indicated in paragraph 96 of the report, requested the Secretary to prepare a further study for its 1994 session on such change, including the level to which the current cap could be lowered. The Committee will therefore await the results of this study before commenting on the matter; at this stage it reiterates, once again, its support for the guidelines set forth in General Assembly resolution 31/196, and its view that the Board should continue to seek other economy measures. 4/

Notes

1/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 9 (A/47/9).

2/ Ibid., Supplement No. 30 (A/47/30).

3/ A/46/614, para. 14.

4/ Ibid., para. 23.